

IDAHO FORECAST DESCRIPTION

The Forecast Period is the Fourth Quarter of 1998 to the Fourth Quarter of 2002

The outlook for Idaho's economy has improved significantly in just a few short months. This is most notable in the employment numbers. In the January 1999 *Idaho Economic Forecast* it was projected that nonfarm employment growth would slow to 1.6% this year. Instead of nonfarm employment growth slowing in 1999, is now expected to accelerate slightly (2.7% versus 2.6% in 1998). There are two main reasons for this change. First, revised Idaho nonfarm employment data show there were about 600 more jobs in the first and second quarters of 1998. The previous forecast shows nonfarm employment advancing just 1.4% in the third quarter of 1998 and 1.9% in the fourth quarter. In the current forecast this measure rises to 2.4% in the third quarter and 3.7% in the fourth quarter of 1998. This higher employment raises the starting point for employment in 1999. Second, future Idaho nonfarm employment growth benefits from the stronger outlook for the national economy. It was previously forecast that real GDP would slow to a 1.7% pace this year. However, given its strong finish last year, its expected performance in 1999 has been upgraded. It is currently projected that real GDP will rise 3.7% in 1999, 2.1% in 2000, 2.4% in 2001, and 2.0% in 2002. Idaho nonfarm employment is anticipated to rise 2.7% in 1999, 2.3% in 2000, 2.1% in 2001, and 2.0% in 2002.

Idaho employment is not the only measure whose outlook has improved over the forecast period. Thanks to stronger job growth and lower inflation, Idaho real personal income is expected to grow faster than was previously projected in the short term. Specifically, it should rise 3.8% in 1999, 3.2% in 2000, 2.8% in 2001, and 2.7% in 2002. In the previous forecast it was slated to increase 2.4% in 1999, 2.7% in 2000, 2.6% in 2001, and 2.9% in 2002. Looked at another way, by 2002 Idaho real personal income should climb to \$26.0 billion, compared to \$25.5 billion in the previous forecast. The impact is more noticeable on a per capita basis. In the previous forecast Idaho real personal income per person was estimated at \$19,245 in 2002. In the current forecast it is \$19,840 in that same year.

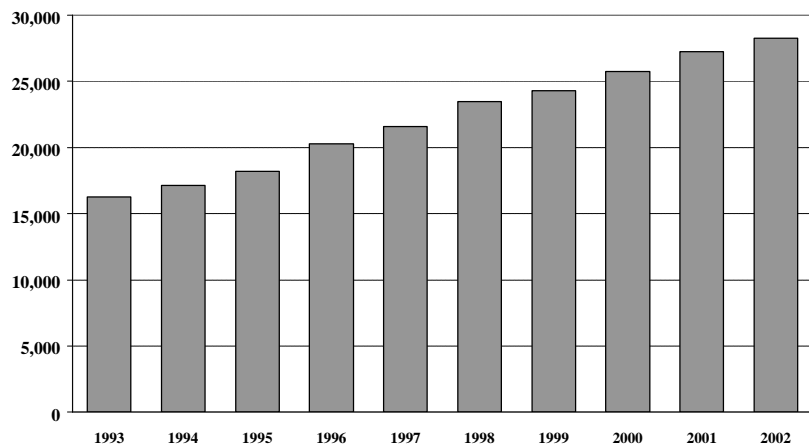
While faster income growth accounts for some of the improvement to per capita income, slower population growth also plays a role. In the previous forecast, Idaho's population was forecast to increase about 1.8% per year. However, U.S. Census Bureau estimates show that it grew by just 1.6% in 1998. One reason that it was weaker is because with the entire nation booming, Idaho was no longer as attractive to job seekers as it was in the early 1990s, when the state was an oasis of prosperity. The current forecast calls for Idaho population to grow 1.6% this year, 1.5% next year, 1.4% in 2001 and 1.5% in 2002.

SELECTED IDAHO ECONOMIC INDICATORS

Electrical and Nonelectrical Machinery: Idaho's electrical and nonelectrical manufacturing sector employment is forecast to slow considerably from the boom levels experienced in the first half of this decade. Boise's two high-tech giants, Micron Technology and Hewlett-Packard, both benefited from the surge in spending on office equipment earlier this decade. In addition, both were well positioned to take advantage of the fastest growing segment of office equipment: computers. Micron, one of the world's largest manufacturers of computer memory, prospered thanks to the strong demand for memory caused by burgeoning personal computer sales and the increased memory demands of both increasingly complex computer hardware and software systems. This bolstered Micron's profits and helped its employment expand rapidly in the early 1990s. Company-wide employment also increased due to the company's diversification into other areas, such as the manufacturing of complete personal computer systems. However, things changed abruptly in 1996. The price of memory chips collapsed that year as Asian competitors flooded the market with memory chips from newly operational plants. This slump still

persists, but there are signs it has bottomed out. The company recently reported it had \$22 million of net income in its most recent quarter. This is an improvement from its \$46 million loss during the previous quarter. Not only has the company survived the recent downturn, but also it seems well positioned to take advantage when the market improves further. Micron completed its purchase of Texas Instruments' memory business in the autumn of 1998. This move should have little short-term impact on Idaho employment.

Idaho Electrical & Nonelectrical Employment



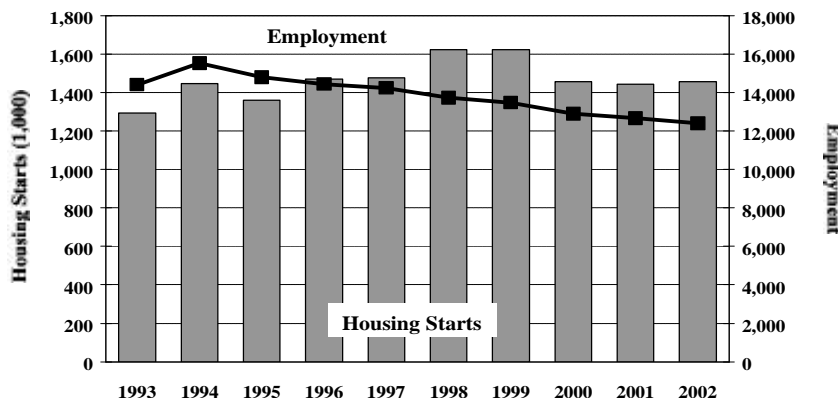
However, it could have a more subtle impact down the road. Micron acquired several semiconductor fabrication plants around the world as part of its Texas Instruments deal. The company also has a mothballed plant in Utah. Thus, the company has significant excess capacity available when the memory chip market turns around. It remains to be seen whether its Idaho employment will surge again when boom times return to the semiconductor industry. In October, Intel invested \$500 million in Micron. This investment was made to assist Micron's development of the next generation of memory products, and helps Micron remain a cutting-edge player in the global market. Favorable markets also fueled Hewlett-Packard's expansion at its Boise site. The demand for this company's popular laser printers and the other products developed and manufactured in Boise helped its local employment swell to over 5,000. In the mid-1990s, the company refocused the Boise site's mission away from production toward research and development. As a result, the surface mount and hard drive manufacturing operations at the Boise plant were dropped. This took employment down to about 4,000. In a similar move, Hewlett-Packard recently sold the manufacturing assets of its formatter board manufacturing operations to Jabil Circuit, Inc. This lowered Hewlett-Packard's employment by another 300 jobs. However, this has had a negligible impact on this sector's employment because Jabil has hired most of Hewlett-Packard's formatter operation's staff and kept them in Boise. This winter Hewlett-Packard announced it was splitting into two distinct and strategically focused companies. One will focus on the measurement business and the other will concentrate on computing and imaging businesses. The Boise site will be part of the latter. This move is not expected to have an impact on employment at the Boise campus. Idaho electrical and nonelectrical employment is forecast to rise 3.5% in 1999, 6.1% in 2000, 5.7% in 2001, and 3.9% in 2002.

Lumber and Wood Products: Idaho lumber and wood products employment is projected to decline over the forecast period. This is the continuation of a trend that began in 1995. Employment in this huge manufacturing sector dropped from approximately 15,500 in 1994 to about 14,800 in 1995. From 1995 to 1998 another 1,000 jobs have been lost. Half of this decline occurred in 1998. Several factors contributed to this sector's disappointing year. About 40 positions were lost when Boise Cascade closed its Horseshoe Bend Mill in the fall of 1998. But bad news was not limited to Southern Idaho. About 50 workers lost their jobs when the Gem State Lumber Company Mill was salvaged. Benewah County lost its second largest employer when Rayonier Incorporated decided not to rebuild its Plummer sawmill that burned last July. Nearly 125 employees worked at the sawmill before the fire. In November 1998, Crown Pacific announced that it would close its Colburn, Idaho sawmill in January 1999. Nearly 100 workers were affected by the closure. Company officials cited low lumber prices and the sawmill's age as the reasons for the closure. In other news affecting the Panhandle's lumber and wood products sector, last fall Louisiana Pacific put its Chilco and Sandpoint operations up for sale. The current problems for lumber

and wood products have both demand and supply roots. The strong dollar and weak Asian economies have hurt the demand for lumber and wood product exports. However, demand problems have spilled over into the supply side of the market. Exports that would have gone to these foreign markets have been redirected to the U.S. market, putting downward pressure on prices. This situation has not been unique to the U.S. Canadian exports have also been hit by the Asian economic crises. As a result, Canadian producers have

shifted their export focus from west to south, hoping to sell more products in the U.S. Their relatively weak currency and the booming U.S. housing market have aided their efforts. These are short-term challenges. The major long-term challenge facing this industry is the dwindling supply of timber from public lands. The Northwest has traditionally been dependent on timber from federal lands. In recent years the supply of logs from these public lands has fallen. The uncertainty of public timber supply should limit future investment and employment in the Gem State's lumber and wood products sector. From 1998 to 2002, Idaho lumber and wood products employment is projected to fall from 13,735 to 12,406.

Idaho Lumber & Wood Products Employment and U.S. Housing Starts



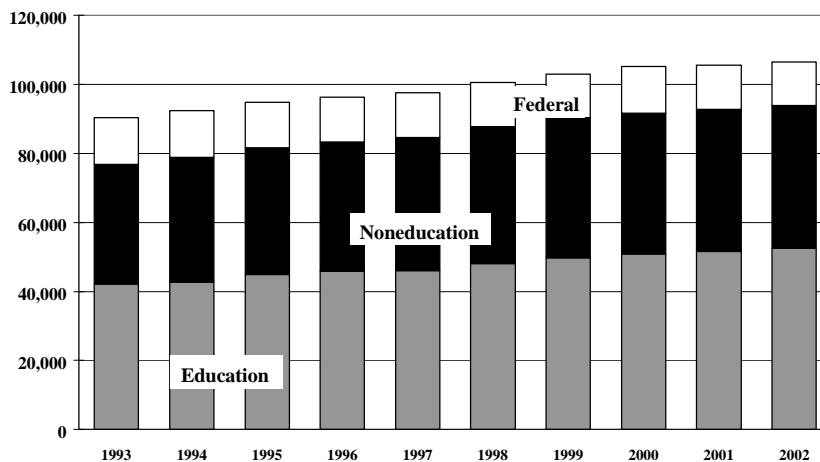
Sources: Standard and Poor's DRI and DFM

Federal, State, and Local

Governments: Absent a booming economy and strong population growth, Idaho state and local government growth should slow over the forecast period. Idaho state and local employment advanced over 3.5% annually during the first half of this decade, which was more than twice the national average. However, this advantage will shrink over the forecast period. In addition to slower economic and population growth, laws aimed at limiting the growth of local government budgets will further temper the

employment outlook. After advancing 2.8% this year, Idaho state and local employment is forecast to grow about 1.3% annually. This is slightly slower than its national counterpart. It is sometimes helpful to break Idaho state and local government into its components. Education-related employment should grow slightly faster than the Idaho government average. Specifically, Idaho education-related government employment is projected to expand 2.3% annually from 1998 to 2002, from about 48,000 to just over 52,500. On the other hand, Idaho noneducation government employment should rise just 0.9% per year. However, it should fare better than the federal employment in Idaho. Thanks to continued federal austerity measures, Idaho federal government employment is anticipated to decline over the next few

Idaho Government Employment

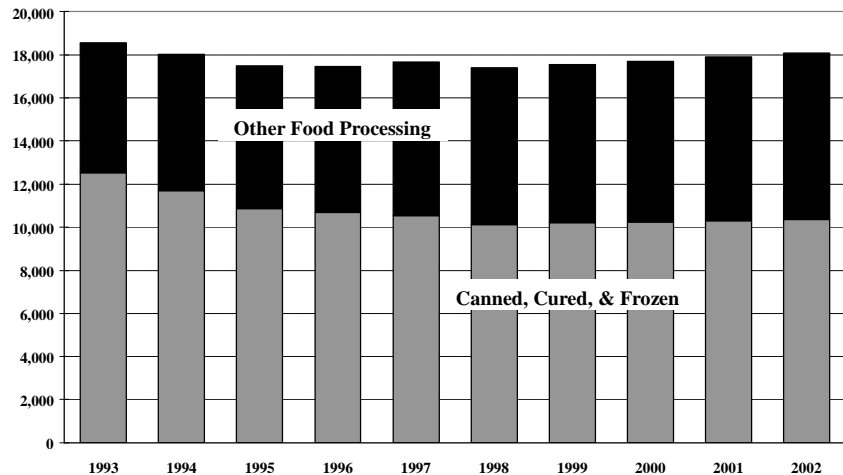


years, going from 12,753 in 1998 to 12,696 in 2002. The hiring of temporary workers for Census 2000 in the beginning of 2000 should provide a brief respite from declines.

Food Processing: Idaho's largest nondurable manufacturing sector suffered a blow last fall when H.J. Heinz Company announced that it would consolidate Ore-Ida Foods Incorporated and Weight Watchers Gourmet Food Company into a new Pittsburgh-based entity called Heinz Frozen Food Company. It was originally estimated the move would cost approximately 400 jobs in Idaho. This number included nearly 250 jobs at Ore-Ida's Boise headquarters. It was calculated that this would leave about 85 employees at its Boise office. This winter, Ore-Ida officials

announced that the company would be closing its Boise office, so these 85 jobs will also be lost. In addition, nearly 150 workers at the Weight Watchers Pocatello plant will also lose their jobs. These declines follow the loss of about 150 positions that resulted from the sale of Ore-Ida's food service business to McCain Foods of Canada. The J.R. Simplot Company, which recently went through its own bout of downsizing, recently invested \$7 million in new equipment at its Heyburn plant. At one point there was talk of layoffs at this plant, but strong demand for its products actually stepped up production. In other food processing news, Cassia County officials have approved a plan to build a \$12 million hog farm south of Burley. It is anticipated that this facility would generate 20 to 25 jobs. The Gem State's food processing employment is forecast to decline 1.5% in 1998 then rise about 1.0% annually through 2002.

Idaho Food Processing Employment

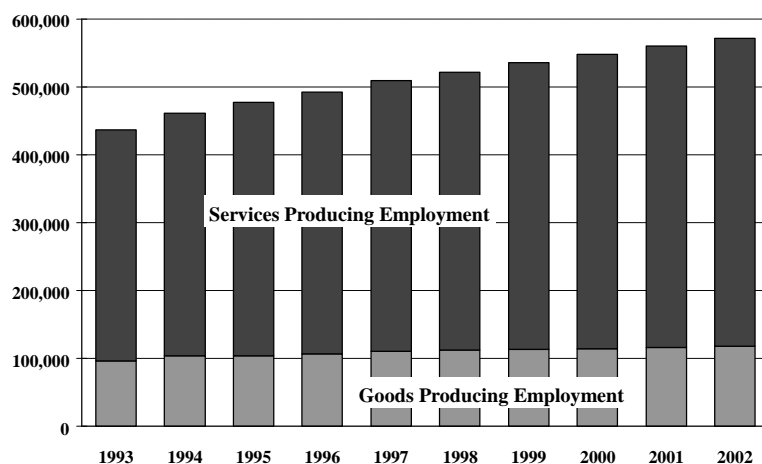


Services-Producing Industries:

The services-producing sector is the state's largest and most diverse employment category. There were nearly 400,000 service-producing jobs in 1997, which was nearly eight of every ten jobs in Idaho. This category includes finance, insurance, and real estate; transportation, communications, and public utilities; trade; services; and government. Not surprisingly, this sector has been the major engine of growth over the last few years. Over the ten years from 1987 to 1997 Idaho has gained 135,000 services-producing jobs.

This represents more than three-quarters of the state's total nonfarm job increase during that same period. This growth is attributable to the positive influences of favorable cyclical and structural factors. Structural

Idaho Nonfarm Employment

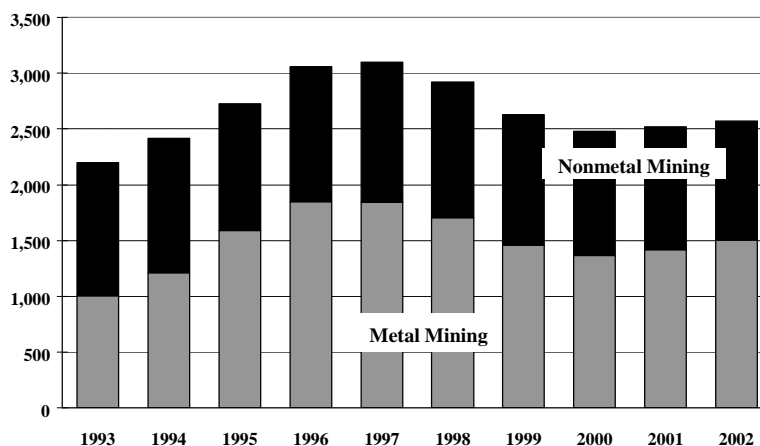


changes include the movement of certain “back office” operations into the state. Two examples of this are the Sears Regional Credit Center and the MCI Call Center, both based in Boise. The services-producing sector has also been bolstered by ongoing structural changes. One of the most significant trends has been the increasing number of women in the labor force. This has raised the demand for a wide range of goods and services, such as childcare and meals away from home. Another change agent has been the growing number of single-person and single-parent households, due partly to the increasing number of persons delaying their first marriages and the greater number of divorced persons. All of these factors will continue to play a role in the future of the trade and services sectors. Other demographic trends also figure in this sector’s future. Most notably, as this country’s baby-boom generation ages, it will strain the supply of existing services for the aged. In addition, this generation of older persons will probably be healthier than previous generations and will demand more recreational/leisure services. Employment levels can also be significantly affected by non-economic factors. For example, a reclassification of employees can change the total number of jobs in this category. This is what happened to the 1998 job count. Many readers will notice that there has been a significant drop compared to the previously reported numbers. This is because U.S. Bureau of Labor Statistics determined that 3,600 of the Idaho jobs reported as noncovered real estate should be classified as self-employed. Since the nonfarm numbers do not include the self-employed, the 1998 first and second quarter counts of service employment are now both around 3,000 lower than was previously estimated. Idaho services-producing employment is forecast to rise 2.8% in 1998, 3.1% in 1999, 2.7% in 2000, 2.2% in 2001, and 2.2% in 2002.

Mining: The next few years promise to be challenging ones for the state’s mining sector. This industry got a peek at what lies in store for it when employment dropped in 1998 for the first time since 1993. Despite a booming national economy, metal prices have suffered from a deflationary trend. Zinc, lead, and molybdenum prices fell below last year’s average. Lower prices contributed to the decision to cut production and lay off 75 of the 250 employees at the Thompson Creek molybdenum mine and mill in Custer County. The Deleamar

Mine in Owyhee County fell victim to low gold prices. Metal mining was not the only category to face challenges. In addition to the slowing economy, nonmetal mining employment will suffer under the additional weight of construction and agricultural problems. The expected flattening of the construction industry will hurt certain nonmetal mining sectors, such as rock quarrying, sand, and gravel. Agricultural woes will probably result in a reduction of shrinking acreage and fertilizer production. This will affect companies in Southeast Idaho where both phosphorus ore is mined and fertilizer is manufactured. However, metal mining should take the biggest hit. Its employment is forecast to drop from 1,708 in 1998 to 1,369 in 2000. After 2000, metal mining employment should rise slowly. However, as has been the trend, metal mining employment is not expected to reach its previous peak. Specifically, Idaho metal mining employment is expected to go from 1,710 in 1998 to 1,619 in 2002. Idaho nonmetal mining employment is projected to decline from 1,215 to 1,065 over this same period. Overall, total mining employment in the Gem State should drop from 2,922 in 1998 to 2,570 in 2002.

Idaho Mining Employment



Construction: The state's construction industry experienced mixed results in 1998. First Security Bank reports that after declining in both 1996 and 1997, Idaho construction value set a new record in 1998. Leading this climb was single-family homes, whose value jumped over 25% last year. Nonresidential construction value also showed a strong gain, rising nearly 12% in 1999. Not all of the construction category values increased, however. The value of Idaho multi-unit construction was down about 20%. Alteration and repair value was off 16% from the

previous year, which more than offset the gain in nonresidential value. The number of housing permits issued last year was up 8.4% from 1997, thanks to strong single-unit activity. In contrast, multi-family housing permits slipped 29% in 1998. This is consistent with the housing start data that show the number of single-family starts in Idaho rose 16% while multi-family starts fell just under 16%. Despite gains in construction value, permits, and starts, Idaho construction employment was virtually flat, gaining just 60 jobs from 1997 to 1998. The combination of higher interest rates and slower economic growth do not bode well for this industry. It is projected that total housing starts in Idaho will decline by about 400 units from 1998 to 1999. However, it should post a steady recovery thereafter, rising to 10,000 starts in 2002. Idaho construction employment follows a similar pattern. The number of construction jobs in Idaho rises 1.1% in 1999, 0.5% in 2000, 0.4% in 2001, and declines 0.2% in 2002.

Idaho Construction Employment and Housing Starts

